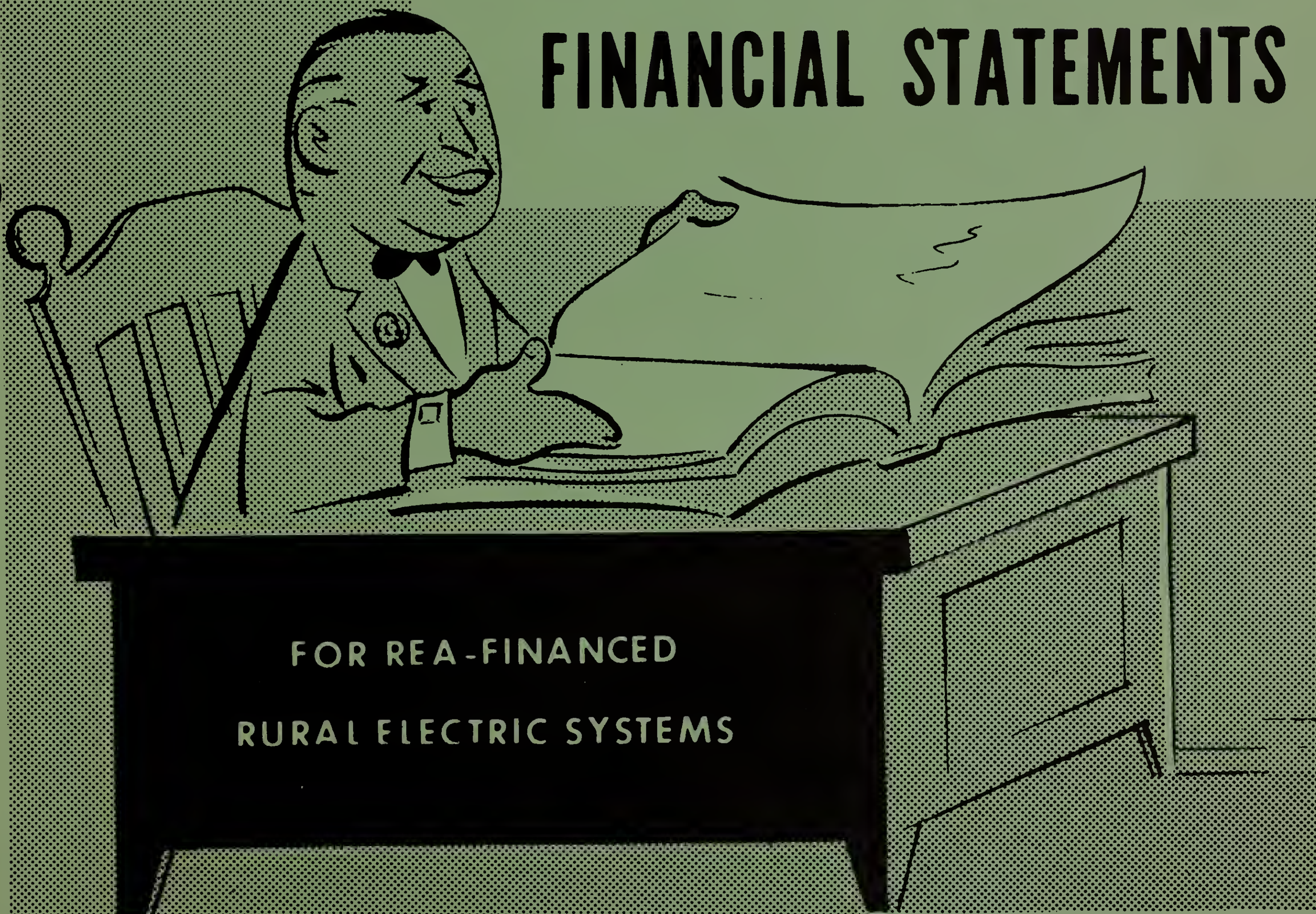
REA BULLETIN 180-3

ABC's OF ACCOUNTING AND INTERPRETATION OF FINANCIAL STATEMENTS



FOR REA-FINANCED
RURAL ELECTRIC SYSTEMS

U. S. DEPARTMENT OF AGRICULTURE

AUGUST 1962

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INTRODUCTION

This bulletin was issued by REA mainly as an aid to directors of rural electric systems. This revision is being made in order to bring its contents into agreement with the revised System of Accounts, and the Monthly Financial and Statistical Report, (REA Form 7). The revision of REA Form 7 reduced the number of items on the Statement of Operations, and effected several consolidations of items. These revisions and consolidations made it necessary to change titles, descriptions, and key relationships in connection with financial data in the ABC bulletin.

This bulletin is intended to help you use your system's financial statements more effectively in forming the policies of the business.

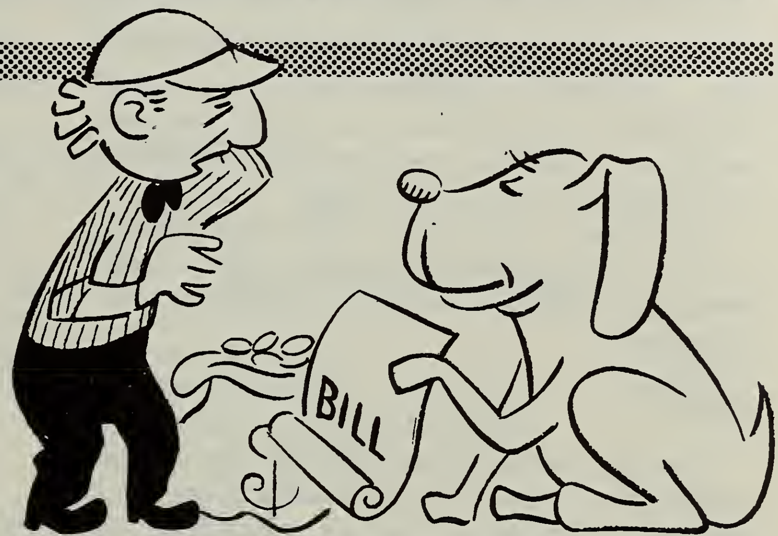
As a director, you are a key man in the system's ability to maintain a satisfactory financial position and give good service to the members. To make intelligent decisions and effective policies, you must be able to keep informed about the conditions of the business. To do this, it should be helpful to have a general knowledge of accounting principles and the interpretation of financial statements.

Accounting is the systematic recording of the financial history of a business. When the facts so recorded are properly arranged, they produce financial statements. Some statements give the picture of the financial position of the business at a given date; others tell the results of operations during a stated period of time. This bulletin starts with a brief review in everyday language of electric cooperative accounting. Then comes information about the various financial statements prepared by the system with a few words about each item and how it is related to others. Finally, there are presented definitions of common accounting terms.

A book of this type has been suggested by many persons connected with the operations of REA borrowers. REA hopes that you who have the responsibility of directing rural electric systems will find it informative and helpful.

PART 1

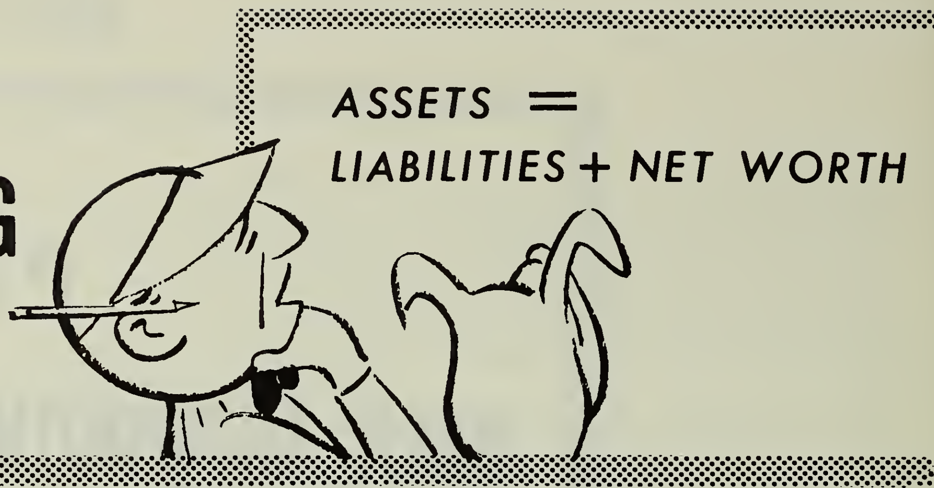
BASIC ACCOUNTING PRINCIPLES



WHAT YOU OWN — WHAT YOU OWE

= WHAT YOU ARE WORTH

ELEMENTS OF ACCOUNTING



Accounting records are often used to compile numerical statistics on construction, employment, production, and other business activities. However, the primary concern of accounting is with money values.

The money values with which accounting deals are ordinarily grouped under three principal headings--assets, liabilities, and net worth.

Asset

Anything the business owns that has money value is an asset. A tangible asset is physical property, such as a chair or a building. An intangible asset is something with money value but no physical existence, such as an easement or a franchise. Physical property may be classified as real (land and everything attached to it) or personal (movable objects).

Liability

A liability is a debt or financial obligation due and payable either immediately or at some future specified time. Ordinarily, obligations are listed as financial liabilities only when they represent rights legally enforceable against the business. The obligation may be an unsecured claim or one wholly or partly secured by a lien against certain business properties.

Net Worth

Net worth represents the owner's equity in the assets of the business. It is the amount by which the assets of the business exceed its liabilities.

Accounting Equation

The values of the assets, the liabilities, and the net worth of the business are expressed in the accounting records on the basis of the "accounting equation." The accounting equation is stated most simply as:

Assets minus liabilities equals net worth

(What you "own" minus what you "owe" equals what you are "worth.")

For the purposes of financial statements the equation is normally rearranged so that it reads:

<u>Assets</u> = <u>liabilities</u> + <u>net worth</u>

This form of the equation permits the listing of all assets on the left side of a statement and of all liabilities and net worth items in separate groups on the right side so that the totals for the two sides are equal.

Classification of Assets, Liabilities, and Net Worth

To give a better picture of the assets, liabilities, and net worth of a business, such items are ordinarily summarized by subgroups. For example, assets are commonly

broken down into plant (land, buildings, and equipment), cash, accounts receivable, materials, and deferred debits. These items are frequently grouped into current assets, fixed assets, and deferred charges, the grouping depending principally upon the length of time before they are likely to be turned into cash or charged as expense.

Liabilities, like assets, are classified into different groups, some of the usual titles being long-term debt, accounts payable, and consumers' deposits. Liabilities may be further classified as current and long-term. Another type of liability comes into existence when a consumer prepays his electric bill. The liability to furnish service is known as a deferred credit and is paid through the furnishing of such service in subsequent periods.

Net worth represents the excess of the value of assets over liabilities to outsiders. Net worth may comprise a number of items: membership fees or capital stock; patronage capital, operating margins, or earned surplus; and donated capital.

Presentation of Data on Assets, Liabilities, and Net Worth

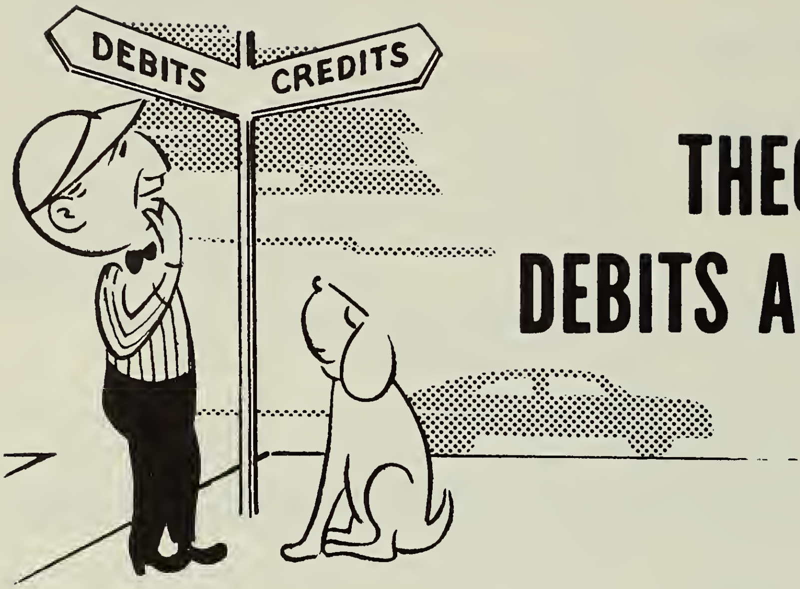
Money values of the types just reviewed are most commonly summarized from the accounting records on a statement called a Balance Sheet. An illustration of such a financial statement follows:

THE XYZ COOPERATIVE

BALANCE SHEET--DECEMBER 31, 1960

Assets and other debits		
Utility plant, net		$2,000,000
Investments and funds		180,000
Current and accrued assets:		
Cash	$70,000	
Accounts receivable	40,000	
Materials and supplies	60,000	170,000
Deferred debits		5,000
		$2,355,000

Liabilities and other credits		
Equities and margins		$ 386,000
Long-term debt		1,950,000
Current and accrued liabilities:		
Accounts payable.	$7,000	
Consumers' deposits	5,000	12,000
Deferred credits		6,000
Contributions in aid of construction		1,000
		$2,355,000



THEORY OF DEBITS AND CREDITS

Double-Entry Bookkeeping

Double-entry bookkeeping is based on the assumption that every business transaction affects two or more items of value. If, for example, assets are increased by purchase of goods on credit, there is a corresponding increase (on the liability side) in accounts payable. If a building is sold for more than its recorded cost, cash will be increased by an amount greater than the decrease in the building account, thus making the total of assets greater than before. The offset to the increase in assets is an increase in net worth, liabilities remaining the same.

Principles of Debit and Credit

The system for recording entries in the books of account involves the use of two columns: a left-hand or "debit" column and a right-hand or "credit" column. The principles of debit and credit may be stated most simply as follows:

Debit:	Credit:
Increases of assets	Decreases of assets
Decreases of liabilities	Increases of liabilities
Decreases of net worth	Increases of net worth

Note that three of the six possible changes in existing assets, liabilities and net worth which can take place as a result of a business transaction are debits and three are credits. Every transaction affects at least one item on each side of the list. For example, if property is purchased for cash, the entry would be a debit increasing assets (property) and a credit decreasing assets (cash). If a note were given to a creditor to close an account payable the debit entry would result in a decrease in liabilities (accounts payable) and the credit entry would increase liabilities (notes payable). If, in a cooperative, a new member contributes capital, the entry would be a debit increasing assets (cash) and a credit increasing net worth (membership fees). The withdrawal of contributed capital would result in a debit decreasing net worth and a credit decreasing assets.

Ledger Accounts

In a simple form an account may be in the form of a "T" with the account heading at the top and debits and credits entered on the left and right sides of the center line, respectively. The complete set of accounts of a business arranged in an organized manner in the ledger constitutes a historical record of all transactions in the form of debits and credits of money amounts. By means of the accounts and their appropriate titles, the ledger groups and summarizes all data affecting each of the accounts and thus furnishes the owners of the business (and other interested parties) with the totals representing particular types of transactions, making unnecessary, for most purposes, a review of the detailed individual items.

Income and Expenses

Income may be defined as money or its equivalent earned or accrued, increasing assets and net worth, and resulting from (1) services rendered or (2) profits from the sales of stock-in-trade or other assets. Expenses may be defined as decreases of net worth resulting from business operations. They include every cost that a business incurs in connection with obtaining income. Examples are salaries, rent, heat, light and other utility items, interest on loans, and depreciation of fixed assets.

Expansion of the Accounting Equation

When income exceeds expense during an accounting period, the net worth of the business is increased. The new amount of net worth will then be the former net worth plus income minus expense during the period. This leads to expansion of the accounting equation into a form which is called the "financial and operating equation." It may be stated as follows:

Assets = liabilities + net worth + income - expense.

In the light of this expanded equation, it may be seen that money values are recorded in the books by debits and credits so that:

Debits Indicate:	Credits Indicate:
Assets increase	Assets decrease
Liability decrease	Liability increase
Net worth decrease	Net worth increase
Income decrease	Income increase
Expense increase	Expense decrease

Statement of Income and Expense

As previously indicated, a new balance sheet may be prepared at the end of an operating period to show the status of the assets, liabilities, and net worth after the changes occurring during the period have been recorded. In fact, businesses ordinarily do prepare such statements. However, it is evident that such a balance sheet showing the new status of the basic accounting elements will not explain the changes which brought about the new conditions. Of course, the balance sheet may be prepared in a comparative form which will show the beginning and ending balances of the asset, liability, and net worth items. This will indicate the net amount of the change in each classification but will not provide sufficient information in itself to enable management to analyze business transactions in detail. Accordingly, an additional financial statement is required which sets forth in summary fashion the type of transactions indirectly affecting net worth and the various assets and liabilities. It is ordinarily called a Statement of Operations, Profit and Loss Statement, or Statement of Income and Expense. Such a statement not only shows whether the business made or lost money during the period (and how much), but it also shows how the money was made or lost.

Assume that the XYZ Cooperative, whose balance sheet as of December 31, 1960, appears on page three, has prepared a new balance sheet as of December 31, 1961, which appears as follows:

THE XYZ COOPERATIVE

BALANCE SHEET--DECEMBER 31, 1961

Assets and other debits		
Utility plant, net		$2,040,000
Investments and funds		190,000
Current and accrued assets:		
Cash	$95,000	
Accounts receivable	39,000	
Material and supplies	40,000	174,000
Deferred debits		4,000
		$2,408,000

Liabilities and other credits		
Equities and margins		$ 460,000
Long-term debt		1,925,000
Current and accrued liabilities:		
Accounts payable	$10,000	
Consumers' deposits	5,250	15,250
Deferred credits		6,750
Contributions in aid of construction		1,000
		$2,408,000

Comparison of the foregoing statement of financial condition with the one on page 3 brings out the fact that between December 31, 1960, and December 31, 1961, the total assets and other debits increased in the amount of $53,000 and the total of the liabilities and credits (other than equities and margins) decreased by $21,000. Since liabilities and net worth must equal assets in any correct set of records, it is apparent that net worth has increased by an amount equal to the sum of the increase in assets and the decrease in liabilities, or $74,000. This increase in net worth, arising from income and expense transactions, is summarized, by the factors involved, in the statement of operations which follows.

THE XYZ COOPERATIVE

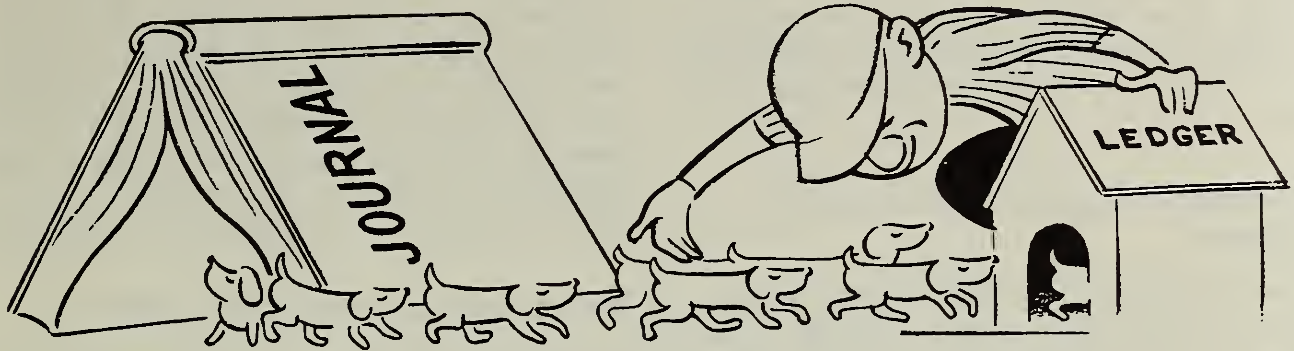
STATEMENT OF OPERATIONS

For the period January 1 to December 31, 1961

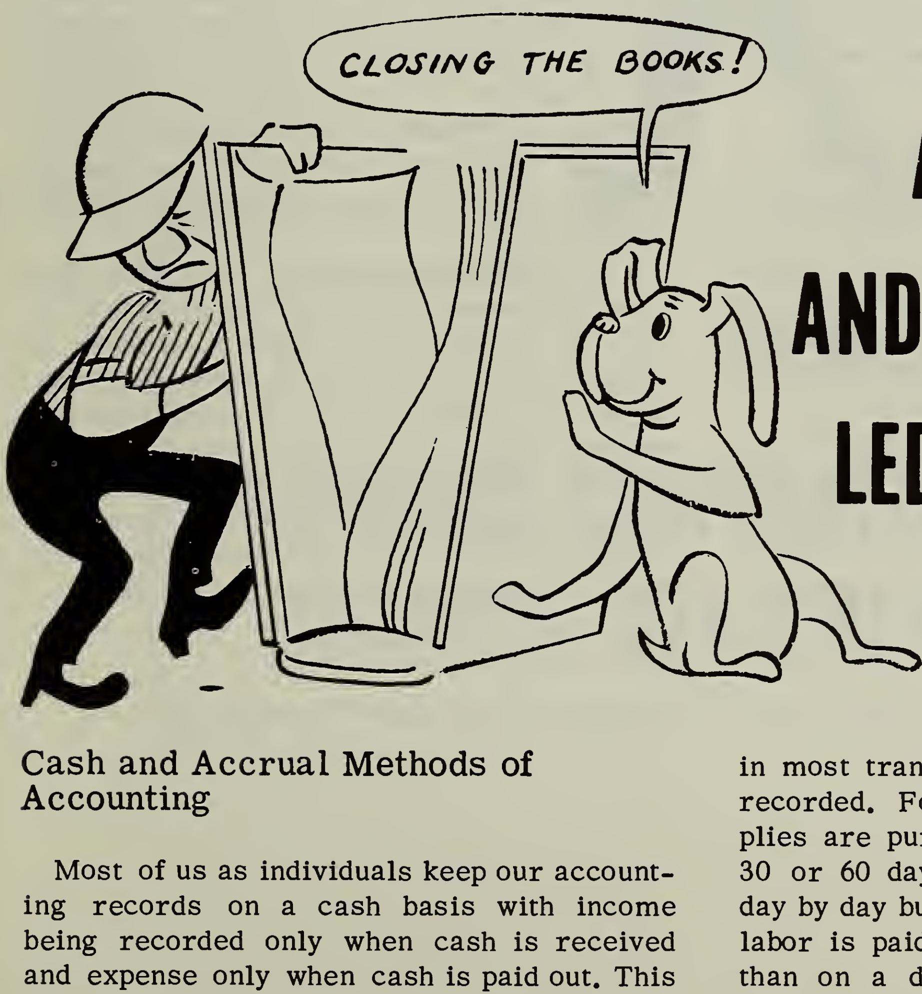
Total operating revenue and patronage capital		$440,000
Cost of power	$150,000	
Distribution expense-operations	35,000	
Distribution expense-maintenance	10,000	
Consumer accounts expense	25,000	
Sales expenses	10,000	
Administrative and general expenses	42,000	
Total Operating Expenses before depreciation and taxes	$272,000	
Depreciation and amortization expense	70,000	
Tax expense	3,000	
Interest and other deductions - net	35,000	
Total cost of electric service		$380,000
Patronage capital and operating margins		$60,000
Nonoperating margins - net		14,000
Patronage capital and margins		$74,000

The above is a standard type of electric cooperative statement of operations. It is prepared on the accrual basis, as contrasted with the cash basis. In other words, business transactions are recorded in the accounting period when they occur, even though collection or payment of cash may take place later. Accrual accounting is discussed in the pages that follow.

JOURNALIZING AND POSTING



Although business transactions are summarized and permanently reflected in accounts in the general ledger (called the book of final entry), they are not ordinarily entered directly in the ledger accounts. Instead, transactions are first recorded (journalized) in a "book of original entry," the simplest form of which is a "journal" or "general journal." The debit and credit amounts listed in a journal are transferred to the left- and right-hand columns, respectively, of accounts in the ledger through a process called "posting."



ADJUSTING AND SUMMARIZING LEDGER ACCOUNT DATA

Cash and Accrual Methods of Accounting

Most of us as individuals keep our accounting records on a cash basis with income being recorded only when cash is received and expense only when cash is paid out. This method is not generally used in commercial business because, in our day and age, some form or other of credit is commonly involved in most transactions, and this credit must be recorded. For example, materials and supplies are purchased on time to be paid for in 30 or 60 days; interest on a debt increases day by day but may be paid only quarterly; and labor is paid on a weekly or biweekly, rather than on a daily basis, so that there is frequently an amount earned by labor at the end of an accounting period which has not yet been paid in cash. These continuous changes in

values which are not recorded continuously constitute accruing items.

The method of accounting used by rural electric systems is known as the "accrual" method since it provides for the periodic recording of the accumulation or accrual of values which have not yet been exchanged for cash.

Adjusting Accounts for Accrued Amounts

The recording of accrued income and expenses at the end of the period is called "adjusting" the accounts. Actually the purpose of the adjustments is to make the books reflect for the period the full amount of expense and income applicable to that particular period, and to establish the true amounts of the accrued assets and liabilities. As income accrues and is recorded as a credit at the end of the month, a corresponding asset value also accrues and is recorded as a debit. For example, interest accrues on notes receivable and is recorded as Interest Income (income) and Interest Receivable (asset).

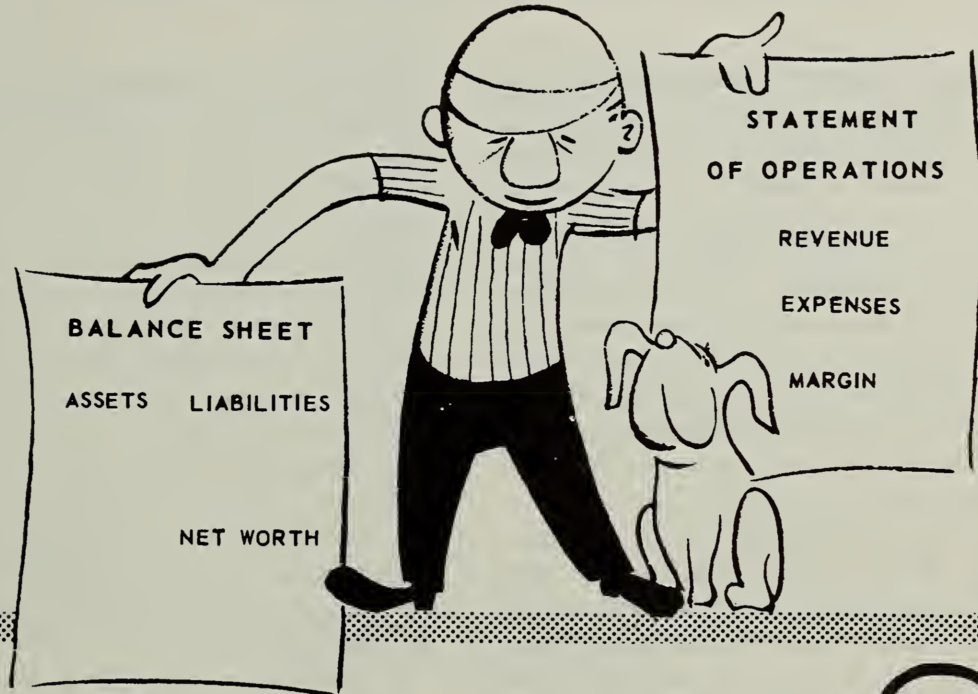
Likewise, expense accrues and is recorded as a debit at the end of the month, while a corresponding liability also accrues and is recorded as a credit. For example, wages accrue during the period between the last date on which employees are paid and the end of the month and are recorded as Payroll (expense) and Accrued Payroll (liability).

Depreciation is a highly important accruing item. This accrual represents the estimated amount by which those physical properties of the business subject to wear and tear, obsolescence, etc., have lost value to the business during the accounting period. This loss in value represents a real cost of doing business, even though it does not call for an expenditure of cash. To record this cost, it is necessary to make an adjusting entry debiting an account called Depreciation Expense and crediting an account called Accumulated Provision for Depreciation. The expense will then be included among the charges made against the income of the period to arrive at the net addition to, or reduction in, net worth.

Summarizing Accounting Data

As has been shown, the adjusting journal entries at the end of the accounting period serve to establish on the books the true amounts of accrued assets and liabilities and to set up expenses and income not otherwise recorded. The adjusted income and expense accounts are then ready for closing. Closing the books consists of transferring the balances of income and expense accounts to a summary account which may be called a "profit and loss" account or an "operations clearing" account. A resulting credit balance in this account represents a net gain or margin, whereas a debit balance represents a net loss for the period.

The Operations Clearing Account is then closed (balanced out) by transferring its balance in the form of a debit or a credit, as appropriate, to Operating Margins, Patronage Capital, Earned Surplus, or some other net worth account. The only accounts then having balances will be the asset, liability, and net worth accounts, and net worth will have been increased or decreased in accordance with the results of business activities for the period.



PART 2

ELECTRIC COOPERATIVES' FINANCIAL STATEMENTS

FINANCIAL AND STATISTICAL REPORTS DESCRIBED

The principal financial statement prepared by electric distribution systems financed by REA is the Monthly Financial and Statistical Report. The report consists of a "Statement of Operations" and a "Balance Sheet," plus summaries of consumer sales and revenue data and general statistics. The report is supplemented once a year with data for the whole year as to: changes in Electric Plant; changes in Accumulated Provision for Depreciation and Amortization; Substations and Metering Points; Accident and Man-hour Statistics; and Deferred Debits and Miscellaneous Data.

Pages 11, 12, 13, and 14 contain examples of a Balance Sheet as of December 31, 1960; a Statement of Operations for the month ending December 31, 1961; a Balance Sheet as of December 31, 1961, and an Annual Supplement to Financial and Statistical Report for the year 1961. Certain types of data not pertinent to this discussion have been omitted from the examples.

Note that the Balance Sheets show the financial position of the cooperative at the end of 1960 and at the end of 1961, respectively; and that the Statement of Operations shows a summary of financial transactions and their effect on net worth for the month of December and the year 1961, as well as for the previous year. In other words, the Balance Sheets show financial position as of particular dates and the Statement of Operations shows what happened to cause the change in financial status during the period between the two balance sheet dates. Also included in the Statement of Operations is a column for the system's budget, or estimate, for the year as to revenues expected to be received and expenditures made in carrying out an authorized plan to achieve objectives.

On the Balance Sheet, assets are shown on the left and liabilities and net worth on the right. The assets are grouped as utility plant, other property and investments, current and accrued assets and deferred debits. The liabilities and other credits are grouped as equities and margins, long-term debt, current and accrued liabilities, deferred credits, miscellaneous operating reserves, and contributions in aid of construction. Equities and margins include membership fees, capital contributed by patrons through payments in excess of the cost of service, margins and other equities.

On the Statement of Operations, revenues from electric energy sales and miscellaneous electric activities are grouped as one item at the top of the form and the operating expenses, depreciation, and amortization, taxes and interest expenses are grouped below and totaled to permit subtraction from the revenues to produce the patronage capital and operating margins, or deficit, for the period. To this balance is added prior years' operating adjustments so as to determine the net operating margin to be added to or deducted from prior net worth. Nonoperating margins are added to this total to determine total patronage capital and margins.

On the Annual Supplement to Financial and Statistical Report (Form 40), section A shows the dollar balances of the various classes of electric plant at the beginning of the year; the additions, retirements, and adjustments during the year; and the year-end balances. Section B shows the changes in accumulated provision for depreciation during the year. Section E presents a breakdown of the items comprising Deferred Debits on the December 31 Balance Sheet.

These particular monthly and annual financial and statistical reports were designed primarily for the use of REA. Most borrowers supplement these reports with additional data for their own use in reviewing operating results.

Form Approved
Budget Bureau No. 40-R181.13

U. S. DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

MONTHLY FINANCIAL AND STATISTICAL REPORT

INSTRUCTIONS – *See REA Bulletin 108-1.*

BORROWER DESIGNATION

MONTH ENDING December 31 19 60

SECTION B. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. TOTAL UTILITY PLANT IN SERVICE	2,073,219	24. MEMBERSHIPS	41,235
2. CONSTRUCTION WORK IN PROGRESS	8,388	25. PATRONAGE CAPITAL	458,415
3. TOTAL UTILITY PLANT (1 + 2)	2,081,607	26. OPERATING MARGINS – PRIOR YEARS	
4. ACC. PROV. FOR DEPRECIATION & AMORTIZATION	442,584	27. OPERATING MARGINS – CURRENT YEAR	114,605
5. NET UTILITY PLANT (3 – 4)	1,639,023	28. NON-OPERATING MARGINS	27,175
6. NON-UTILITY PROPERTY – NET		29. OTHER MARGINS	
7. INVESTMENTS – ASSOCIATED ORGANIZATIONS	5,250	30. OTHER EQUITIES	3,576
8. OTHER INVESTMENTS	135,374	31. TOTAL EQUITIES AND MARGINS (24 THRU 30)	645,006
9. RESTRICTED FUNDS	47,392	32. LONG-TERM DEBT – REA	1,341,183
10. TOTAL OTHER PROP. & INVESTMENTS (6 THRU 9)	188,016	33. LONG-TERM DEBT – OTHER	
11. CASH – GENERAL	32,877	34. TOTAL LONG-TERM DEBT (32 + 33)	1,341,183
12. CASH – REA LOAN FUNDS	8,063	35. NOTES AND ACCOUNTS PAYABLE	4,742
13. SPECIAL DEPOSITS	400	36. CONSUMERS DEPOSITS	4,864
14. TEMPORARY INVESTMENTS	30,079	37. OTHER CURRENT AND ACCRUED LIABILITIES	2,591
15. NOTES RECEIVABLE – NET	1,652	38. TOTAL CURRENT AND ACCRUED LIABILITIES (35 THRU 37)	12,197
16. ACCOUNTS RECEIVABLE – NET	41,138	39. DEFERRED CREDITS	2,195
17. MATERIALS AND SUPPLIES – ELECTRIC	51,122	40. MISCELLANEOUS OPERATING RESERVES	
18. MATERIALS AND SUPPLIES – MERCHANDISE	4,062	41. CONTRIBUTIONS IN AID OF CONSTRUCTION	368
19. PREPAYMENTS	2,037	42. TOTAL LIABILITIES AND OTHER CREDITS (31 + 34 + 38 + 39 + 40 + 41)	2,000,949
20. OTHER CURRENT AND ACCRUED ASSETS	1,204		
21. TOTAL CURRENT & ACCRUED ASSETS (11 THRU 20)	172,634		
22. DEFERRED DEBITS	1,276		
23. TOTAL ASSETS & OTHER DEBITS (5 + 10 + 21 + 22)	2,000,949		

SECTION C. CONSUMER SALES AND REVENUE DATA

SOURCE OF REVENUE	THIS MONTH			YEAR – TO – DATE			
	NUMBER RECEIVING SERVICE	KWH SOLD	AMOUNT	NUMBER MINIMUM BILLS	AVG. NO. RECEIVING SERVICE	KWH SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES–RURAL							
2. RESIDENTIAL SALES–SEAS.							
3. RESIDENTIAL SALES–TOWNS VILLAGES							
4. IRRIGATION SALES							
5. COMMERCIAL & INDUS.–50 KVA OR LESS							
6. COMMERCIAL & INDUS.–OVER 50 KVA							
7. PUBLIC STREET & HIGHWAY LIGHTING							
8. SALES TO PUB. BLDGS. & OTHER PUBLIC AUTHORITIES							
9. SALES FOR RESALE – REA BORROWERS							
10. SALES FOR RESALE – OTHER							
11. TOTAL SALES OF ELECTRIC ENERGY (1 THRU 10)							
12. FORFEITED DISCOUNTS							
13. RENT FROM ELECTRIC PROPERTY							
14. OTHER ELECTRIC REVENUE							
15. INCOME FROM LEASED PROPERTY – NET							
16. OTHER UTILITY OPERATING INCOME							
17. TOTAL OTHER OPERATING REVENUE (12 THRU 16)							
18. TOTALS (11 + 17)							

SECTION D. GENERAL STATISTICS

	THIS MONTH	YEAR – TO – DATE		THIS MONTH
1. NET KWH GENERATED ______ TO ______			9. NEW SERVICES CONNECTED	
2. KWH PURCHASED ______ TO ______			10. SERVICES RETIRED	
3. TOTAL KWH GENERATED AND PURCHASED			11. TOTAL SERVICES IN PLACE	
4. TOTAL KWH SOLD ______ TO ______			12. IDLE SERVICES – EXCLUDING SEASONALS	
5. OFFICE USE ______ TO ______				
6. TOTAL UNACCOUNTED FOR *(Line 3 less 4 & 5)*			13. MILES TRANSMISSION	
7. PERCENT SYSTEM LOSS			14. MILES DISTRIBUTION	
8. ACCIDENTS			15. TOTAL MILES ENERGIZED	

U. S. DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

MONTHLY FINANCIAL AND STATISTICAL REPORT

TO: *U. S. Department of Agriculture, REA, Washington, D. C.*

INSTRUCTIONS – *Submit original and 2 copies of this report including 1 copy of each month's Wholesale Power Bill. For detailed instructions see REA Bul. 108-1.*

Form Approved
Budget Bureau No. 40-R181.13

BORROWER DESIGNATION

MONTH ENDING

December 31 19 61

SECTION A. STATEMENT OF OPERATIONS

ITEMS	YEAR – TO – DATE			THIS MONTH
	LAST YEAR	THIS YEAR	BUDGET	
1. OPERATING REVENUE AND PATRONAGE CAPITAL*	456,964	504,983	497,700	42,130
2. POWER PRODUCTION EXPENSE				
3. OTHER PRODUCTION EXPENSES				
4. COST OF PURCHASED POWER	129,555	151,118	149,450	12,593
5. TRANSMISSION EXPENSE				
6. DISTRIBUTION EXPENSE – OPERATIONS	30,465	35,729	35,000	3,061
7. DISTRIBUTION EXPENSE – MAINTENANCE	9,148	8,743	10,000	812
8. CONSUMER ACCOUNTS EXPENSE	23,792	22,289	25,750	2,024
9. SALES EXPENSES	8,246	10,849	9,650	904
10. ADMINISTRATIVE AND GENERAL EXPENSES	44,542	54,991	53,550	4,582
11. TOTAL OPERATING EXPENSES *(2 thru 10)*	245,748	283,719	283,400	23,976
12. DEPRECIATION AND AMORTIZATION EXPENSE	67,829	71,438	72,700	6,007
13. TAX EXPENSE	2,954	3,262	3,000	272
14. INTEREST AND OTHER DEDUCTIONS – NET	25,828	26,203	26,450	2,183
15. TOTAL COST OF ELECTRIC SERVICE *(11 thru 14)*	342,359	384,622	385,550	32,438
16. PATRONAGE CAPITAL AND OPERATING MARGINS *(1 minus 15)*	114,605	120,361	112,150	9,692
17. PRIOR YEARS OPERATING ADJUSTMENTS–NET				
18. PATRONAGE CAPITAL AND OPERATING MARGINS ADJUSTED *(16 plus 17)*	114,605	120,361	112,150	9,692
19. NONOPERATING MARGINS – NET	7,006	6,059	9,000	869
20. PATRONAGE CAPITAL AND MARGINS *(18 plus 19)*	121,611	126,420	121,150	10,561
* *Contributions for debt service not included in electric energy revenues*				

CERTIFICATION

We hereby certify, that the entries in this report are in accordance with the accounts and other records of the system and that the report reflects the status of the system to the best of our knowledge and belief.

DATE

SIGNATURE OF BOOKKEEPER

DATE

SIGNATURE OF MANAGER

REA FORM 7 REV. 3-61

PAGE 1 OF 2 PAGES

Form Approved
Budget Bureau No. 40-R181.13

U. S. DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

MONTHLY FINANCIAL AND STATISTICAL REPORT

INSTRUCTIONS – *See REA Bulletin 108-1.*

BORROWER DESIGNATION

MONTH ENDING December 31 19 61

SECTION B. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. TOTAL UTILITY PLANT IN SERVICE	2,203,846		
2. CONSTRUCTION WORK IN PROGRESS	9,633	24. MEMBERSHIPS	42,835
3. TOTAL UTILITY PLANT (1 + 2)	2,213,479	25. PATRONAGE CAPITAL	573,020
4. ACC. PROV. FOR DEPRECIATION & AMORTIZATION	493,410	26. OPERATING MARGINS – PRIOR YEARS	
5. NET UTILITY PLANT (3 – 4)	1,720,069	27. OPERATING MARGINS – CURRENT YEAR	116,361
6. NON-UTILITY PROPERTY – NET		28. NON-OPERATING MARGINS	37,234
7. INVESTMENTS – ASSOCIATED ORGANIZATIONS	6,345	29. OTHER MARGINS	
8. OTHER INVESTMENTS	149,192	30. OTHER EQUITIES	3,671
9. RESTRICTED FUNDS	62,643	31. TOTAL EQUITIES AND MARGINS (24 THRU 30)	773,121
10. TOTAL OTHER PROP. & INVESTMENTS (6 THRU 9)	218,180	32. LONG-TERM DEBT – REA	1,325,123
11. CASH – GENERAL	61,426	33. LONG-TERM DEBT – OTHER	
12. CASH – REA LOAN FUNDS	5,870	34. TOTAL LONG-TERM DEBT (32 + 33)	1,325,123
13. SPECIAL DEPOSITS		35. NOTES AND ACCOUNTS PAYABLE	7,048
14. TEMPORARY INVESTMENTS	28,373	36. CONSUMERS DEPOSITS	4,912
15. NOTES RECEIVABLE – NET	1,788	37. OTHER CURRENT AND ACCRUED LIABILITIES	2,320
16. ACCOUNTS RECEIVABLE – NET	40,074	38. TOTAL CURRENT AND ACCRUED LIABILITIES	
17. MATERIALS AND SUPPLIES – ELECTRIC	31,432	(35 THRU 37)	14,280
18. MATERIALS AND SUPPLIES – MERCHANDISE	4,210	39. DEFERRED CREDITS	2,345
19. PREPAYMENTS	2,462	40. MISCELLANEOUS OPERATING RESERVES	
20. OTHER CURRENT AND ACCRUED ASSETS	1,244	41. CONTRIBUTIONS IN AID OF CONSTRUCTION	412
21. TOTAL CURRENT & ACCRUED ASSETS (11 THRU 20)	176,879	42. TOTAL LIABILITIES AND OTHER CREDITS	
22. DEFERRED DEBITS	153	(31 + 34 + 38 + 39 + 40 + 41)	
23. TOTAL ASSETS & OTHER DEBITS (5 + 10 + 21 + 22)	2,115,281		2,115,281

SECTION C. CONSUMER SALES AND REVENUE DATA

SOURCE OF REVENUE	THIS MONTH				YEAR – TO – DATE		
	NUMBER RECEIVING SERVICE	KWH SOLD	AMOUNT	NUMBER MINIMUM BILLS	AVG. NO. RECEIVING SERVICE	KWH SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES–RURAL							
2. RESIDENTIAL SALES–SEAS.							
3. RESIDENTIAL SALES–TOWNS VILLAGES							
4. IRRIGATION SALES							
5. COMMERCIAL & INDUS.–50 KVA OR LESS							
6. COMMERCIAL & INDUS.–OVER 50 KVA							
7. PUBLIC STREET & HIGHWAY LIGHTING							
8. SALES TO PUB. BLDGS. & OTHER PUBLIC AUTHORITIES							
9. SALES FOR RESALE – REA BORROWERS							
10. SALES FOR RESALE – OTHER							
11. TOTAL SALES OF ELECTRIC ENERGY (1 THRU 10)							
12. FORFEITED DISCOUNTS							
13. RENT FROM ELECTRIC PROPERTY							
14. OTHER ELECTRIC REVENUE							
15. INCOME FROM LEASED PROPERTY – NET							
16. OTHER UTILITY OPERATING INCOME							
17. TOTAL OTHER OPERATING REVENUE (12 THRU 16)							
18. TOTALS (11 + 17)							

SECTION D. GENERAL STATISTICS

	THIS MONTH	YEAR – TO – DATE		THIS MONTH
1. NET KWH GENERATED ____ TO ____			9. NEW SERVICES CONNECTED	
2. KWH PURCHASED ____ TO ____			10. SERVICES RETIRED	
3. TOTAL KWH GENERATED AND PURCHASED			11. TOTAL SERVICES IN PLACE	
4. TOTAL KWH SOLD ____ TO ____			12. IDLE SERVICES – EXCLUDING SEASONALS	
5. OFFICE USE ____ TO ____				
6. TOTAL UNACCOUNTED FOR *(Line 3 less 4 & 5)*			13. MILES TRANSMISSION	
7. PERCENT SYSTEM LOSS			14. MILES DISTRIBUTION	
8. ACCIDENTS			15. TOTAL MILES ENERGIZED	

U. S. DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

Form Approved
Budget Bureau No. 40-R2697.3

ANNUAL SUPPLEMENT TO FINANCIAL AND STATISTICAL REPORT

TO: U. S. DEPARTMENT OF AGRICULTURE, REA, WASHINGTON 25, D.C.

BORROWER DESIGNATION

INSTRUCTIONS - *Submit original and two copies of this report within 15 days after the close of the year. See REA Bulletin 108-1.*

YEAR ENDING DECEMBER 31, 1961

SECTION A. CHANGES IN ELECTRIC PLANT

ELECTRIC PLANT	BALANCE BEGINNING OF YEAR	ADDITIONS	RETIREMENTS	ADJUSTMENTS AND TRANSFERS	BALANCE END OF YEAR
1. INTANGIBLE	31,187	630			31,817
2. STEAM PRODUCTION					
3. HYDRAULIC PRODUCTION					
4. OTHER PRODUCTION					
5. TRANSMISSION					
6. DISTRIBUTION	1,863,582	84,713	28,932		1,919,363
7. GENERAL	173,498	38,637			212,135
8. PURCHASED OR SOLD					
9. LEASED TO OTHERS					
10. HELD FOR FUTURE USE					
11. NOT CLASSIFIED	4,952	42,584	7,005		40,531
12. CONSTRUCTION WORK IN PROGRESS	8,388	1,245			9,633
13. ACQUISITION ADJUSTMENTS					
14. TOTAL ELECTRIC PLANT *(1 thru 13)*	2,081,607	167,809	35,937		2,213,479

SECTION B. CHANGES IN ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION

ITEM	BALANCE BEGINNING OF YEAR	ACCRUALS	RETIREMENTS LESS NET SALVAGE	ADJUSTMENTS AND TRANSFERS	BALANCE End OF YEAR
1. ELECTRIC PLANT IN SERVICE	442,584	72,462	21,636		493,410
2. PLANT LEASED TO OTHERS					
3. HELD FOR FUTURE USE					
4. ACQUISITION ADJUSTMENTS					
5. LIMITED - TERM ITEMS					
6. TOTAL *(1 thru 5)*	442,584				493,410

SECTION C. SUBSTATION AND METERING POINT

NAME OR LOCATION OF SUBSTATION OR METERING POINT	SUBSTATION OWNED YES	SUBSTATION OWNED NO	SUBSTATION KVA CAPACITY	MAXIMUM KVA/KW DEMAND	MONTH OF MAXIMUM DEMAND	NUMBER RECEIVING SERVICE	NAME OR LOCATION OF SUBSTATION OR METERING POINT	SUBSTATION OWNED YES	SUBSTATION OWNED NO	SUBSTATION KVA CAPACITY	MAXIMUM KVA/KW DEMAND	MONTH OF MAXIMUM DEMAND	NUMBER RECEIVING SERVICE
1.							7.						
2.							8.						
3.							9.						
4.							10.						
5.							11.						
6.							12.						

SEC. D. ACCIDENT & MAN-HOUR STATISTICS

ITEM	NUMBER
1. FATAL ACCIDENTS	
2. LOST TIME ACCIDENTS	
3. FULL-TIME EMPLOYEES	
4. MAN-HOURS WORKED	
5. MAN-HOURS LOST DUE TO ACCIDENT	

SECTION E. DEFERRED DEBITS AND MISCELLANEOUS DATA

DEFERRED DEBITS	AMOUNT	MISCELLANEOUS DATA	AMOUNT
1. RETIREMENT WORK IN PROGRESS		6. CONTRIBS. FOR DEBT SERV. NOT INCLUDED IN ELEC. ENERGY REVS.	
2. UNAMORTIZED LOAN EXPENSES	153	7. INTEREST ON LONG TERM DEBT	
3. EXTRAORDINARY PROPERTY LOSS		8. INTEREST CHARGED TO CONSTR.	
4. OTHER DEFERRED DEBITS		9. OTHER DEDUCTIONS	
5. TOTAL DEFERRED DEBITS	153	10. NET LIQUID ASSETS	

CERTIFICATION

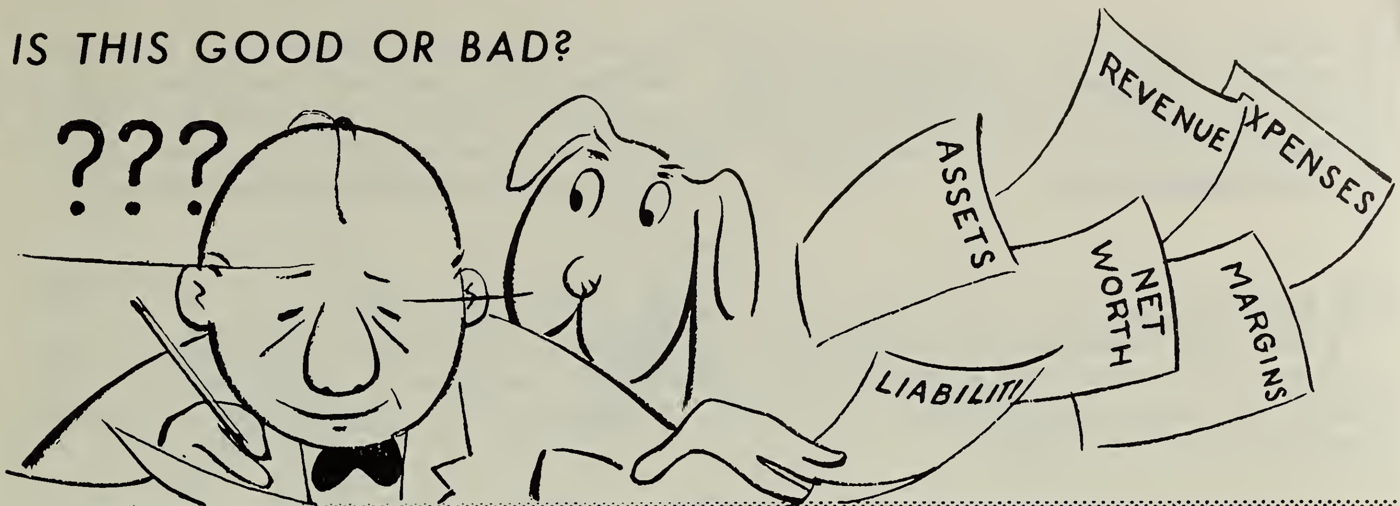
We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and that the report reflects the status of the system to the best of our knowledge and belief.

DATE | SIGNATURE OF BOOKKEEPER

DATE | SIGNATURE OF MANAGER

REA FORM 40 REV. 8-61

IS THIS GOOD OR BAD?



INTERPRETATION AND USE OF THE DATA ON FINANCIAL AND STATISTICAL REPORTS

This part of the Bulletin is intended to show how you can analyze your system's financial statements and determine how the system is doing financially.

To interpret financial statements intelligently you need to be familiar with the method of operation of the particular business. You must know, for instance, that ordinarily sales of electricity are made on credit of approximately 30 days, as compared with a virtual cash sales operation on the part of a railroad company. Such knowledge will enable you to determine the approximate amount that should be represented by accounts receivable at the end of any month and how it should compare with total sales for the year. The railroad company's receivables could be practically zero, regardless of the volume of sales, whereas a ratio of receivables to annual sales of 1 to 12 may be normal for an electric system.

The same principle applies to the material inventories maintained by an electric distribution system and, say, an electrical supply company. Materials inventory would be a relatively much more important asset in the balance sheet of the supply company than of the electric distribution system, since it would be the company's stock-in-trade. The distribution system would need materials only for plant extension and maintenance and, except in periods of heavy construction, would have a comparatively small amount.

You can analyze the Balance Sheet and Statement of Operations by using selected check points to compare some financial items with others. To be most useful your analysis should not only compare related items for the current period but should also compare data of the current period with corresponding data for another similar period.

While no single one of the check points selected will give you the complete financial picture, the number of them needed for a general financial review is usually comparatively small. Furthermore, there is no complete agreement as to which check points are most useful in interpreting data on financial statements. One electric system will find certain ratios of use to it which are not employed by another, all depending upon the circumstances and purposes involved.

Several standard ratios are given in this review of the financial relationships. This is because, although average ratios for all REA-financed electric systems are informative in a general way, they cannot be applied as an exact standard for any particular system. Each system should develop its own standards and ratios. Standards for a particular system depend largely upon the economic condition of

the territory, the terrain on which the lines are located, the stage of development of the system, the density of consumers, the size of the system, investment costs, financial policies, and related factors.

The following six check points are among the few most commonly used and, in most situations, will give you a working knowledge of the financial status of the system and help you plan future operations more effectively:

(1)

NET WORTH .... to .... TOTAL ASSETS

(This ratio measures the extent to which the members and patrons of the electric cooperative have financed the total electric plant and other assets employed in the business, as distinguished from those assets financed by others. The larger the ratio, the stronger the financial position--pages 21 and 22.)

(2)

NET WORTH .... to .... THE SUM OF LONG-TERM DEBT AND NET WORTH

(This ratio shows the relative proportions of owned and borrowed capital in the financial structure--page 22.)

(3)

NET OPERATING MARGINS................. to .... TOTAL OPERATING REVENUES

(This shows the amount of net margin for the period for each dollar of operating revenue--page 22.)

(4)

NET OPERATING MARGINS PLUS NET INTEREST EXPENSE to .... NET UTILITY PLANT

(This shows the operating results for the year before deducting interest expense as a percentage of net plant investment--page 18. Regulatory bodies use this ratio, giving consideration to an amount for a reasonable working capital added to net utility plant in determining the rate of return. The rate of return is used in determining whether or not a rate increase, or decrease is justified.)

(5)

TOTAL OPERATING EXPENSES (before Depreciation and Taxes) to .... TOTAL OPERATING REVENUES

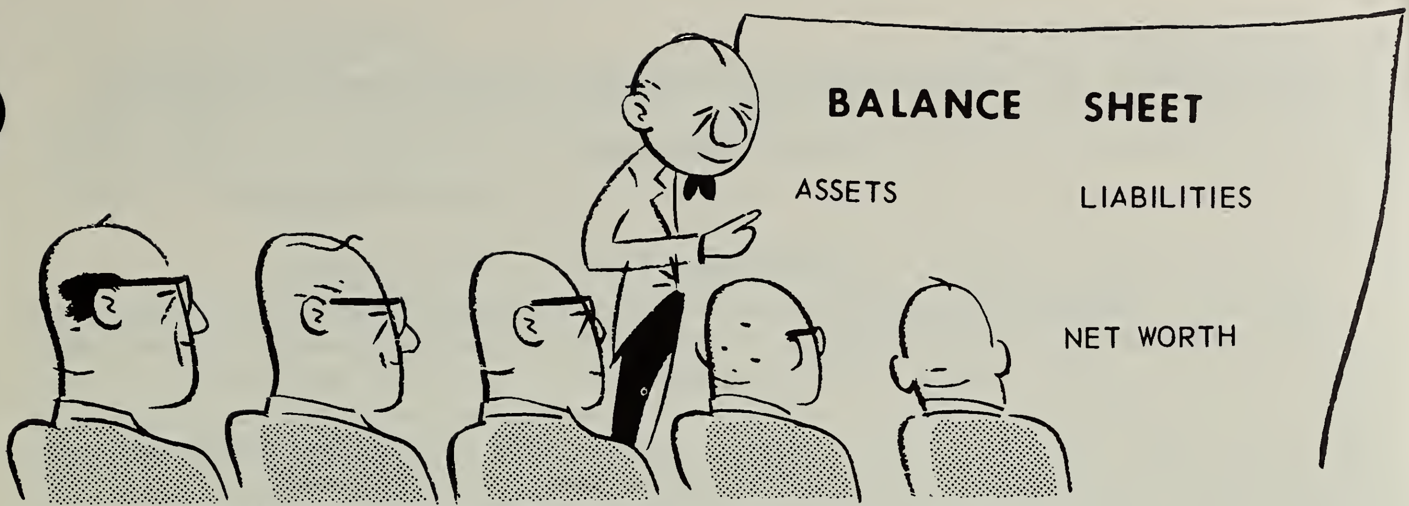
(This is the "operating ratio," indicating how the more-or-less controllable expenses compare with operating revenues--page 27.)

(6)

TOTAL REVENUES, LESS OPERATING EXPENSES, TAXES, AND ESTIMATED REPLACEMENT COSTS to .... MAXIMUM DEBT SERVICE REQUIREMENTS

(This is the "debt service earned ratio," indicating, percentagewise, the amount received above operating expenses, taxes, and estimated replacement costs, which is thus available to make payments on the long-term debt and current interest.

As previously mentioned, the analyst can use a relatively few selected check points to make a general analysis of a financial statement. However, if he has a working knowledge of what goes into the various accounts and how accounts relate to one another he will find the review of financial statements more interesting and informative. Therefore, there is presented in the following pages a description of each item in the financial statements, together with key relationships between certain items.



BALANCE SHEET DATA • • •
AND KEY RELATIONSHIPS

1. TOTAL UTILITY PLANT IN SERVICE

This item represents the original cost of your utility plant. In a distribution system, for example, this includes distribution lines, substations, and general plant. The lines are made up of poles, conductor, anchor-guys, transformers, services, meters, protective devices, and other equipment items which regulate the flow of electricity over those lines. Substations reduce the transmission voltage to the voltage of the distribution lines and include transformers, switches, and regulating equipment, in addition to poles or other structures to which the bus work is attached. General plant includes the office building with all of its office furniture and office equipment as well as transportation and communication equipment.

Key Relationships:

Total of this item	to	Total operating revenues
	to	Total accumulated provision for depreciation
	to	Total advanced by REA on construction loans
	to	Balance due REA for construction loans
	to	Miles of line
	to	Number of consumers

2. CONSTRUCTION WORK IN PROGRESS

This item should not be large unless a large construction program is under way, as it represents electric plant in the process of being constructed. The cost of utility plant, upon energization, will become part of Item 1; therefore, this is a temporary account. Should the balance of this item be large there is a possibility that work orders are not being prepared on a current basis in accordance with REA's requirements. When construction is heavy, the quantity of materials on hand is likely to be large.

Key Relationships:

Total of this item	to	Materials and supplies - Electric
	to	Construction work in progress at beginning of year

3. TOTAL UTILITY PLANT

This item is the total of items 1 and 2 and represents the entire amount of utility plant.

Key Relationship:

Total of this item .... to .... Total equities and margins

4. ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION

This item represents the balances in the various accumulated provisions for depreciation of utility plant as well as any accumulated provision for amortization of limited term investments. All physical plant wears out or becomes obsolete at some time. Depreciation is nothing more than the writing off to expense of the service cost of plant over its estimated life. At the time a particular part of the plant becomes useless and is abandoned or retired, its cost is charged against the appropriate provision for depreciation account and any salvage resulting is credited to that account. The cost to remove the plant is also charged to that account. In other words, the balance represents the total provision for depreciation accrued since the beginning of the system, less the loss due to retirements of plant abandoned since the beginning. It represents the portion of Item 1 (Utility Plant in Service) which has been charged as an expense of doing business. The balance in this account will normally increase from year to year except in those years in which a large reconstruction program is in progress.

Key Relationships:

Total of this item .... { to .... Utility plant in service
to .... Repayments of principal to REA

5. NET UTILITY PLANT

This item represents the net recorded cost of the utility plant. One test of how the system is progressing from a strictly financial standpoint is the ratio of operating margins (before interest) for a given 12-month period to the total of this item. Operating margins before interest can be obtained from the Statement of Operations (Form 7, Section A), Item 16, plus interest charged to expense.

Key Relationship:

Total of this item .... to .... Operating margins for 12-month period plus interest charged to expense

6. NONUTILITY PROPERTY--NET

This item represents property not used in utility service owned by the system, less any applicable provisions for depreciation or amortization. Amounts in this account will not be large except in those instances in which electric systems have been acquired that include nonutility property. A second possibility would be for a system to build a new office building and elect to retain its old building for rental purposes. If this is a large amount, inquiry should be made as to the reason for, and the propriety of, such extra investments.

Key Relationship:

Total of this item .... to .... Nonoperating revenues from such investments.

7. INVESTMENTS--ASSOCIATED ORGANIZATIONS

This item represents patronage capital credits allocated to the accounting cooperative by associated cooperatives, such as G & T cooperatives, and investments in capital stock, memberships or securities of, or advances to, associated organizations.

8. OTHER INVESTMENTS

This item represents general cash invested in securities of the U. S. Government and other organizations not classified as associated organizations. An analysis of the amount reported as Item 19 of the Statement of Operations is necessary to determine non-operating interest revenues applicable to each investment.

Key Relationships:

General cash invested in securities......	to.......	Prepayments to REA
	to.......	Nonoperating interest revenues
	to.......	Total plant

9. RESTRICTED FUNDS

This item represents funds earmarked for use in (1) financing ordinary replacements of electric plant in the future; (2) debt service payments; (3) consumers' deposits and (4) contingencies. As this item is made up of dissimilar items it is necessary to determine the amount of each to compare the relationships.

Key Relationships:

Total of this item..............................	to.......	Provision for depreciation
	to.......	Prepayments to REA
	to.......	Consumers' Deposits
	to.......	Total plant

10. TOTAL OTHER PROPERTY AND INVESTMENTS

This item represents the totals of Item 6 through 9.

Key Relationship:

Total of this item..............................	to.......	Total patronage capital and margins
	to.......	Total plant

11. CASH--GENERAL

This item represents cash in bank or in the till available for any corporate needs. Generally, no interest is received on deposits of this type; therefore, the balance in this account should be sufficient to meet current liabilities but should usually not be more than $1\frac{1}{2}$ times one month's operating expenses, plus money needed to meet next quarterly debt service payment.

Key Relationship:

Total of this item..............................	to.......	Accounts payable--general funds
	to.......	Average monthly expenditures

12. CASH--REA LOAN FUNDS

This item represents construction and installation funds advanced by REA to the borrower, plus collections from consumers on installation loans, all held in special bank accounts. As these funds are restricted wholly to loan purposes this cash should not be considered a current asset. The amount of this item should not be large unless a major construction program is in progress, since excessive amounts retained in these accounts will result in unnecessary interest expense.

13. SPECIAL DEPOSITS

This item includes funds which are not available for general corporate purposes, such as deposits with fiscal agents as a guaranty for fulfillment of an obligation. Usually this item will be relatively small.

14. TEMPORARY INVESTMENTS

This item represents general cash funds temporarily not needed which have been invested in short-term investments and are available for current operating purposes. It is almost indistinguishable from general cash, as these investments may be converted to cash within a short period of time.

15. NOTES RECEIVABLE--NET

This item represents notes receivable due the system, less the amount established as a provision for uncollectible notes.

16. ACCOUNTS RECEIVABLE--NET

This item represents consumers' unpaid electric bills, and receivables due the system which are not connected with the furnishing of electric service, less amounts established as provision for uncollectible accounts. For those systems which render monthly bills, the portion of this item representing unpaid electric bills should ordinarily not exceed 1/12 of the annual electric revenues, and is directly related to the dates on which meters are read and bills rendered, and the due date of those bills. If meters are read on the first of the month and bills sent to consumers on the 5th, with the penalty date being the 15th, the balance should represent only past due amounts at the date of any balance sheet. Under these circumstances a large balance in consumers' accounts receivable would indicate a poor collection policy. The age of the various accounts receivable is extremely important, particularly for those accounts which have been in the books over 60 days.

Normally the balance of accounts receivable, other than for the furnishing of electric service, should not be large; however, as a result of unusual transactions the amount may represent an important asset. If the balance for such receivables is large, inquiry should be made as to the items included.

The provisions for uncollectible accounts is provided to absorb any losses due to nonpayment; therefore the balance in the provision for uncollectible accounts is directly related to the accounts which are considered past due.

Key Relationships:

Total of consumer accounts receivable..	to	1/12 the annual electric revenue
Provision for uncollectible accounts	to	accounts delinquent 60 days or more

17. MATERIAL AND SUPPLIES--ELECTRIC

This item represents the cost of: (1) materials which will be used to construct and replace utility plant in service; (2) small amounts of material for maintenance purposes; and (3) fuel stock maintained by the system. For distribution systems most of the materials comprising this item will be used to add to the utility plant in service. Except where large fuel stocks are necessary for generation or when a large construction program is contemplated, the item should not be large. It should represent a normal stock of materials used in constructing, maintaining, and operating plant.

18. MATERIALS AND SUPPLIES--MERCHANDISE

If the system is in the merchandising business, this item may include considerable sums representing merchandise for resale to consumers. The resale materials are current assets since they are expected to be turned into cash within a reasonable time.

Key Relationships:

Resale materials..............................	to	Other accounts receivable
	to	Nonoperating margins

19. PREPAYMENTS

This item is made up of prepayments, such as insurance and office supplies purchased in large quantities, the cost of which relates to later periods. The balance generally is determined by the dates and the terms of the various insurance policies. If the balance is much larger than these circumstances warrant, inquiry should be made as to the reason therefor.

20. OTHER CURRENT AND ACCRUED ASSETS

This item includes receivables for interest, dividends, and rent income, and miscellaneous current and accrued assets.

21. TOTAL CURRENT AND ACCRUED ASSETS

This item includes the balances of Items 11 through 20. To determine the net working capital of the system, the total of this item (with items 12 and 17 and installation notes receivable in Item 15 excluded) should be reduced by the amount in Item 38, Total Current and Accrued Liabilities, excluding construction payables. Working capital is the amount of cash or other current assets available to meet the current operating expenses of the business.

Key Relationship:

Total current and accrued assets	to	Total current and accrued liabilities

22. DEFERRED DEBITS

This item is made up of a number of dissimilar items. They are: (1) unamortized loan expense, (2) extraordinary property losses, (3) preliminary survey and investigation expenditures, (4) retirements in progress and (5) other deferred debits. The details of this item are shown under Section E on Form 40. Generally speaking, this item will include balances applicable to items 1, 3, 4, and 5 listed above. These amounts generally represent expenditures previously incurred which will be charged to operations during future periods. Therefore, sizable balances in this item should be investigated.

23. TOTAL ASSETS AND OTHER DEBITS

This item is the total of items 5, 10, 21, and 22. It represents the grand total of assets and similar debits.

Key Relationship:

Total of this item	to	Total Equities and margins plus contributions in aid of construction

24. MEMBERSHIPS

This item includes memberships both issued and subscribed. Memberships normally represent the number of members multiplied by the regular membership fee.

25. PATRONAGE CAPITAL

This item includes patronage capital assigned and assignable. Only those cooperatives which have adopted a plan for crediting consumers with capital contributed through patronage will have any amounts in this item. Such capital represents margins accumulated subsequent to the adoption of a capital credits plan which have been or are to be assigned to patrons.

26. OPERATING MARGIN--PRIOR YEARS

This item includes all operating margins of years prior to the adoption of a capital credits plan, less any operating deficits incurred during those years or subsequently. If a capital credits plan has not been adopted this item will include the net margins from operations since the beginning of the system, exclusive of those for the current year.

27. OPERATING MARGIN--CURRENT YEAR

This item constitutes the operating margin for the current calendar year. If a capital credits plan is in effect the amount of this item will be transferred to Item 25, Patronage Capital, at the end of the year. If a capital credits plan has not been adopted, this amount will become part of Item 26. Operating Margin--Prior Years. In other words, this is a temporary resting place for the current year's margin.

28. NONOPERATING MARGINS

This item includes margins from business activities other than the rendering of electric service to consumers, such as margins from merchandising; revenue from lease of other physical property; interest revenues; revenues from sinking and other funds; and miscellaneous nonoperating revenues, with deduction for nonoperating expenses and interest payable to REA on installation loan funds. The most common types of revenue included in this item are interest on securities and margins from merchandising, if the latter activity is performed. This item includes all nonoperating margins of prior years plus nonoperating margins for the current calendar year, less any patronage refunds on merchandising.

The importance of this margin in an interpretation of financial results is discussed on page 28 with reference to item 19 of the Statement of Operations.

29. OTHER MARGINS

This item includes patronage capital assigned to a distribution borrower by a generation and transmission cooperative, if not credited directly to patronage capital assignable. Cooperatives which have adopted a plan for crediting consumers with capital contributed will include patronage capital from a G&T cooperative under the item patronage capital (Item 25).

30. OTHER EQUITIES

This item includes (1) donated capital; (2) consumers' contribution for debt service; (3) appropriated margins; (4) gains relating to capital credits which have been retired, and (5) capital gains and losses. Consumers' contributions for debt service represents amounts contributed by consumers for the specific purpose of retiring long-term debt to REA. Amounts included in this item are not considered revenue and they are shown separately on the monthly bill rendered patrons for electric service received during the month, and is common to borrowers which purchase wholesale power from TVA. Appropriated margins include amounts transferred from margins to contingency reserves and is generally applicable to cooperatives formed under certain state laws which require that margin reserves be maintained.

31. TOTAL EQUITIES AND MARGINS

This item is the sum of amounts included in Items 24 through 30 and constitutes total net worth exclusive of contributions in aid of construction. It represents the total amount of capital provided by patrons, including membership fees, less any returns of patronage capital.

Key Relationships:

Total of this item	to	The sum of the long-term obligation and the total of this item
	to	Total electric plant
	to	Total assets and other debits
Total of this item, plus contributions in aid of construction	to	Total assets and other debits

32. LONG-TERM DEBT--REA

This item represents the net amount of advances from REA under both construction and installation loans, plus accrued deferred interest, less repayments.

Key Relationships:

Balance due REA for construction loans.	to	Utility plant in service
	to	Net Utility Plant
	to	Interest expense
Total advanced by REA for construction loans	to	Utility plant in service
Balance due REA for installation loans ..	to	Installation Notes Receivable

33. LONG-TERM DEBT--OTHER

This item includes bonds and other debt payable one year or more after the date of the balance sheet and owed to lenders other than REA.

34. TOTAL LONG-TERM DEBT

This item represents the sum of items 32 and 33, or the total long-term debt of the borrower.

35. NOTES AND ACCOUNTS PAYABLE

This item includes accounts payable and any incidental short-term notes owed by the system. Sometimes included are amounts due material suppliers and contractors which are payable from the construction fund. When such items are to be paid from construction fund cash (Item 12), they are not to be considered current liabilities and they should be deducted from Item 38 in calculating working capital. Since both general and construction obligations are included in this item an analysis is necessary before comparison can be made on related balances.

Key Relationships:

Total of General Fund Payables	to	Operating expenses for the preceding month
	to	Cash and accounts receivable--general funds
Total of Construction Fund Payables.....	to	Construction work in progress
	to	Construction fund cash

36. CONSUMERS' DEPOSITS

This item includes deposits by consumers held by the system as security for the payment of electric bills; also, additional service connection fees paid by members. The amount of this item should not fluctuate greatly from period to period.

37. OTHER CURRENT AND ACCRUED LIABILITIES

This item includes balances in current and accrued liability accounts shown in the Uniform System of Accounts, such as (1) liability for property, social security, sales, income and other taxes, (2) accrued interest on construction and installation obligations, and other accrued interest, (3) rentals, (4) income tax withheld from employees, (5) unpaid payrolls, (6) unpaid insurance, (7) accruals for vacations and holidays, (8) patronage capital and refunds payable, (9) matured long-term debt and interest, and (10) any other current and accrued liabilities due within 12 months.

Key Relationship:

Total of this item	to	General fund cash

38. TOTAL CURRENT AND ACCRUED LIABILITIES

This item is the total of Items 35 through 37. For purposes of calculating working capital, the total of that portion of Item 35 representing payables for materials excluded from current assets and other liabilities payable from REA loan funds are deducted.

Key Relationship:

Total of this item .... to .... Total current and accrued assets

39. DEFERRED CREDITS

This item includes: (1) advances by consumers for construction which are to be refunded under various plans, (2) consumers' energy prepayments, and (3) any other deferred credits. This balance should not be large unless it is the practice for consumers to prepay for long periods in advance of service or the system has special contracts with large power users.

40. MISCELLANEOUS OPERATING RESERVES

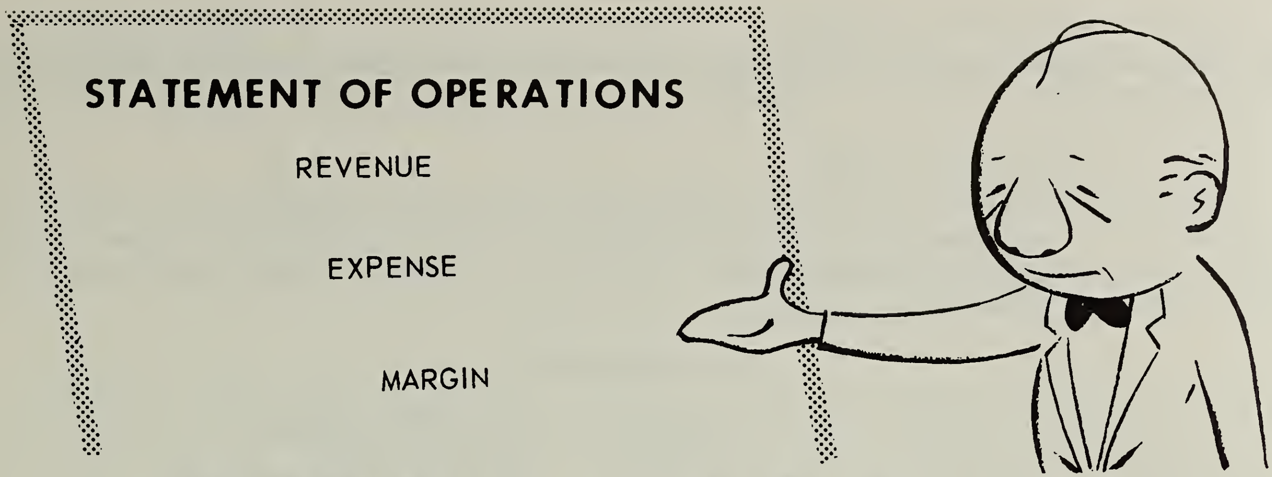
This item includes amounts contributed to an approved pension plan by the borrower and the employees, amounts accrued as a reserve for deferred compensation under an approved plan, and like items.

41. CONTRIBUTIONS IN AID OF CONSTRUCTION

This item includes contributions in cash or services from individuals, states, and other governmental bodies for construction purposes. In utility accounting this item is set forth separately from the liabilities and net worth. The balance should normally never decrease, and, in most cases, should not be extremely large.

42. TOTAL LIABILITIES AND OTHER CREDITS

This item is the total of items 31, 34, 38 and 39 through 41.



STATEMENT OF OPERATIONS DATA AND KEY RELATIONSHIPS

The Statement of Operations is important to management because the current and past operating results, as shown by the Statement, are useful in forecasting future operating results and in comparing actual results with the budget for the period. For the data to be most reliable it is well to compare operating results for the last 3 to 5 years.

Business assets are valuable to the extent that they are able to produce income. Therefore, the relationships of (1) gross operating revenues to the monies invested in electric plant and (2) net operating revenues (gross revenues less the expense to produce those revenues) to net plant (gross plant less accumulated provision for depreciation) are two basic financial relationships used in judging the economic well-being of any business. These relationships are discussed on pages 17, 18, 25 and 28.

The Statement of Operations (Form 7, Section A) has been broken down into 20 different items in order that the comparative data obtained from revenue and expense classifications might be more useful to directors and managers.

1. OPERATING REVENUE AND PATRONAGE CAPITAL

This item includes all amounts received or receivable from consumers for electric service. The analysis of total revenue should include a review of Section C, Consumer Sales and Revenue Data, Form 7, Monthly Financial and Statistical Report, for determination of the types of consumers and relative amounts of sales to each by K W H and dollar totals. Forfeited discount and miscellaneous electric revenues are included in this item also.

Key Relationship:

Total of this item .... to .... Utility plant in service

2. POWER PRODUCTION EXPENSE

This item comprises costs in connection with generating electricity in those cases in which the electric system includes production plant, with the exception of internal combustion engine production expenses which are included in Item 3.

Key Relationships:

Total of this item	to	KWH generated
	to	KWH sold
	to	Total operating revenues

3. OTHER PRODUCTION EXPENSE

This item includes production expenses in connection with generating electricity by internal combustion engines.

4. COST OF PURCHASED POWER

This item represents the power bill from the wholesale supplier plus or minus the net settlement for interchange power and costs incurred in load dispatching activities for system control. The number of purchased KWH which are resold for the month and for the year are shown in Section C, Form 7.

Key Relationships:

Total of this item	to	Total KWH purchased
	to	Total KWH sold
	to	Total operating expenses
	to	Total operating revenues

5. TRANSMISSION EXPENSE

This item represents the direct cost of operating and maintaining the transmission system, that is, the portion of utility plant used for the purpose of transmitting electric energy in bulk to other principal parts of the system or to other electric systems.

Key Relationships:

Total of this item	to	Miles of transmission line
	to	Total operating revenues
	to	Investment in transmission system

6. DISTRIBUTION EXPENSE-OPERATIONS

This item represents the direct cost of operating the distribution lines and substations and the cost of services on consumers' premises.

Key Relationships:

Total of this item	to	Miles of distribution line
	to	Number of consumers
	to	Total operating revenues
	to	Investment in distribution system

7. DISTRIBUTION EXPENSE-MAINTENANCE

This item represents the direct cost of maintaining the distribution lines and substations.

Key Relationships:

Total of this item	to	Miles of distribution line
	to	Number of consumers
	to	Total operating revenues
	to	Investment in distribution system

8. CONSUMER ACCOUNTS EXPENSE

This item includes the cost of reading meters, issuing bills, and collecting amounts due from consumers. It also includes allowances for uncollectible accounts and any rents for property used in connection with consumers' accounting and collecting.

Key Relationships:

Total of this item	to	Number of consumers
	to	Total operating revenues
	to	Utility plant in service

9. SALES EXPENSES

This item represents costs and expenses including salaries of personnel, materials, etc., incurred in connection with advisory service for adequate and efficient use of equipment and appliances.

Key Relationships:

Total of this item	to	Number of consumers
	to	Total operating revenue
	to	Utility plant in service

10. ADMINISTRATIVE AND GENERAL EXPENSES

This item includes the salaries and expenses of officers and employees engaged in administrative and general office activities together with general office supplies, heat, light, rent, etc. It also includes the costs of outside legal and accounting services, insurance, employee pensions and benefits, franchise requirements, regulatory commission expenses and other general expenses such as directors fees, annual meeting expenses, and maintenance of general office building and all general plant equipment. The cost of insurance, workmens compensation, and liability protection on automobiles and similar premiums relating to construction is not included in this item.

Key Relationships:

Total of this item	to	Number of consumers
	to	Total operating revenues
	to	Utility plant in service

11. TOTAL OPERATING EXPENSES (before Depreciation and Taxes)

This item represents the sum of Items 2 through 10. This total, exclusive of cost of power purchased and generated (Items 2, 3, and 4), represents the cost of operating the electric system during any given period. Most of these items are controllable and good management should always make an effort to reduce these costs without reducing the service provided consumers.

Key Relationships:

Total of this item	to	Total operating revenues (operating ratio)
Total of this item, less purchased and generated power	to	Total operating revenues
	to	Miles of line
	to	Number of consumers
	to	Utility plant in service

12. DEPRECIATION AND AMORTIZATION EXPENSE

This item includes the total accruals of depreciation expense for all classifications of plant, exclusive of depreciation on transportation and heavy work equipment. This is an excellent example of a noncontrollable expense as it represents the writing-off of the net service cost of utility plant to operations over the estimated life of the plant. Normally, it will range from 2.9 to 3.2 percent of the utility plant annually and will generally increase in amount with each succeeding operating period.

The amortization expense will generally represent the write-off of charges on three items: (1) limited-term electric plant, such as franchises, (2) electric plant acquisition adjustments, in connection with purchase of property, (3) extraordinary storm losses.

Key Relationships:

Total of this item	to	Utility plant in service
	to	Total operating revenues

13. TAX EXPENSES

Generally, this item will include: (1) property taxes; (2) United States and state social security taxes for unemployment and old age benefits chargeable to operations; (3) state and

federal income taxes, if any; and (4) other taxes, such as gross receipts taxes, franchise taxes, etc. Gasoline and other sales taxes should be associated, when practicable, with the materials on which the taxes are levied and therefore will not be in this total. Taxes on nonoperating property will be included in Item 19. Special assessments for improvements are included in electric plant and therefore are not in this amount. Taxes on merchandising and electric appliance sales are accounted for as part of the cost of sales of such items and are not a part of this item.

Key Relationships:

Total of this item	to	Total operating revenues
	to	Utility plant in service

14. INTEREST AND OTHER DEDUCTIONS--NET

This item represents interest expense on REA construction loans and any other obligation exclusive of installation loans. Also included are (1) donations to charity; (2) preliminary survey costs on a contemplated project which is subsequently abandoned; (3) amounts of write-offs of loan expenses; and (4) other miscellaneous income deductions.

15. TOTAL COST OF ELECTRIC SERVICE

This item represents the total of all the expenses discussed above and is deducted from total operating revenues (Item 1) to arrive at the patronage capital and operating margins for the current period.

16. PATRONAGE CAPITAL AND OPERATING MARGINS

This item is the focal point at which revenues are compared with expenses.

Key Relationships:

Total of this item	to	Total operating revenues
	to	Total assets and other debits
Total, plus net interest expense	to	Utility plant, less provision for depreciation

17. PRIOR YEARS' OPERATING ADJUSTMENTS--NET

This item represents miscellaneous expenses and revenues relating to earlier years and relatively so large in amount that debiting or crediting such adjustments to the current accounting period would distort the results of operations. At the close of the accounting year amounts applicable to a period for which patrons' capital have been assigned shall be transferred to patrons' capital credits and assigned on the same basis as the original assignment for that period.

18. PATRONAGE CAPITAL AND OPERATING MARGINS ADJUSTED

This item represents the net balance of patronage capital and operating margins after applying any operating adjustment for prior years.

19. NONOPERATING MARGINS--NET

This item includes: (1) net gain or loss from merchandising operations; (2) rentals from nonutility property; (3) interest on investments; (4) net gain or loss from installation loans and (5) any adjustments to prior years nonoperating margins.

Key Relationships:

Total of this item	to	Patronage capital and operating margins
	to	Operating revenue and patronage capital
Interest Income	to	Securities included in Other Investments, restricted funds and temporary investments.

20. PATRONAGE CAPITAL AND MARGINS

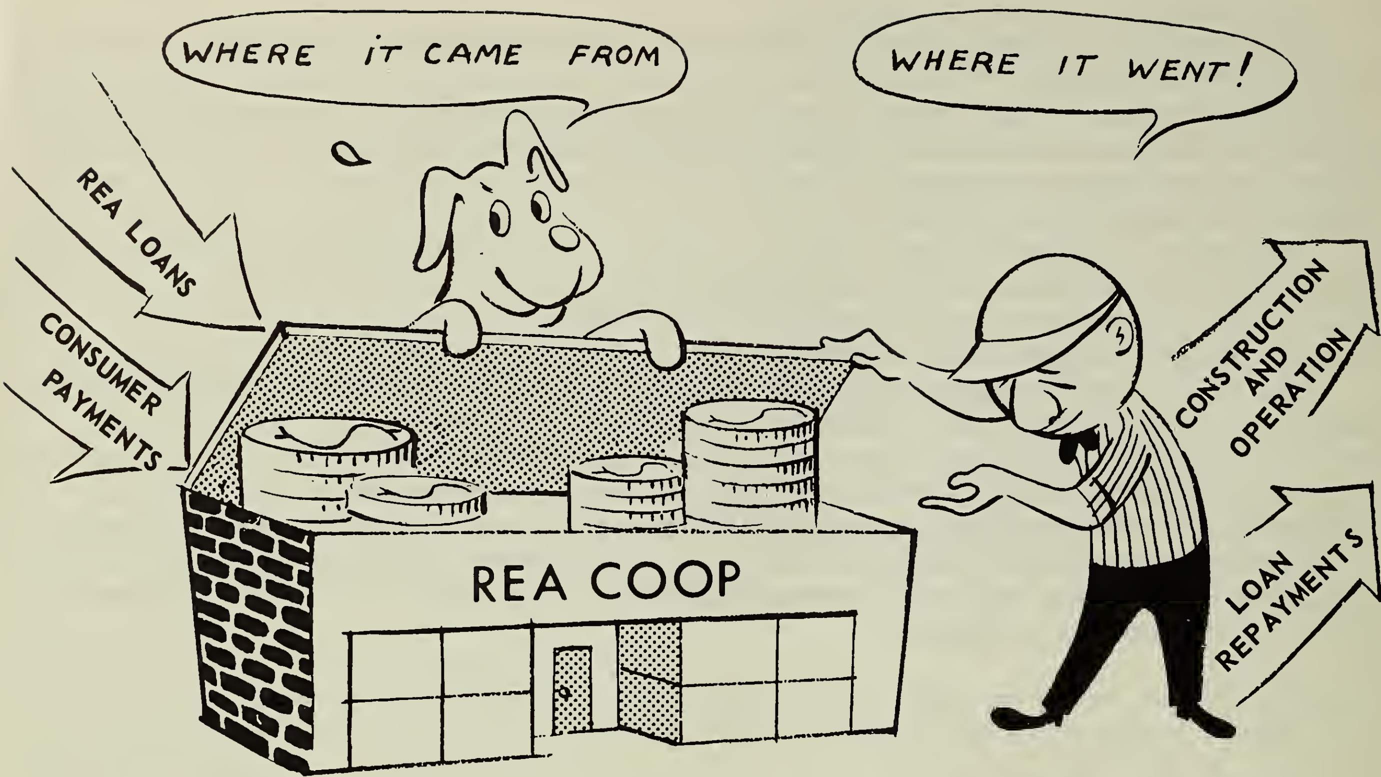
This item represents the net margins from both operating and nonoperating activities, including any adjustments for prior years.

One of the ratios which may be used to provide information as to your system's financial progress is the ratio of the amount of annual revenues available for debt service to the maximum annual amount required to be paid as principal and interest on long-term debt. This is called the Debt Service Earned Ratio (DSER).

The amount available for debt service represents operating revenue and patronage capital (Item 1) plus nonoperating margins (Item 19) less operating expenses (Item 11), taxes (Item 13), and estimated replacement costs (1 percent of the average utility plant in service as determined from the balances of Item 1, Balance Sheet, as of the beginning and end of the year--Page 17.)

The debt service requirement to be used in the ratio represents the maximum annual amount to be paid on existing long-term obligations to REA on Section 4 loans. This amount may be calculated by multiplying the debt basis by 4.7 percent, which is the maximum rate of payment applicable to most 35-year loans. The debt basis is the total of REA advances on Section 4 notes not yet repaid in full plus or minus net obligation transfers from or to other borrowers.

Division of the amount available for debt service (as above calculated) by the debt service requirement (determined as above) produces the debt service earned ratio. A ratio of 100 percent or above is considered satisfactory.



STATEMENT OF APPLICATION OF FUNDS

Directors of any business need to know the following fundamental facts regarding the financial operation of the business: (1) the profit or margins made on an accrual basis, and (2) the cash flow of the business, that is, how many dollars were actually taken in, in any given period, and what those dollars were used for. Item 1 is obtained from the Statement of Operations and Item 2 may be obtained from a Statement of Application of Funds.

The Statement of Application of Funds summarizes in one statement the total activities of the business from a cash standpoint. It may be useful in showing why an electric system which operated at a loss for the period still managed to retire debt as it came due. Or, it may be used to explain why a system which had an operating margin was short of cash at the end of the period. It does not replace, but is a valuable supplement to, the Statement of Operations and the Balance Sheet.

The Statement of Application of Funds (page 31) is made in two parts, the first setting forth cash monies or their equivalent received by the system in excess of expenses during the period covered by the statement, and the second indicating the use or resting place of the funds shown in the first part. Basically REA-financed electric systems receive funds from two main sources, that is, from (1) consumers through payments for electric service, and (2) loans made by REA.

There are also two principal outlays of money, the first being for additions to utility plant and the replacement of the system already in service, and the second being the repayment to REA of money previously borrowed. Subtracting the cost of property changes and repayments to REA from funds provided, there is generally left over money which normally is used for a number of purposes, such as: (1) to improve the working capital position of the system where appropriate; (2) to establish or maintain a reserve fund for financing future replacements of plant; (3) to make advance payments on long-term debt; and (4) to retire capital credits.

STATEMENT OF APPLICATION OF FUNDS

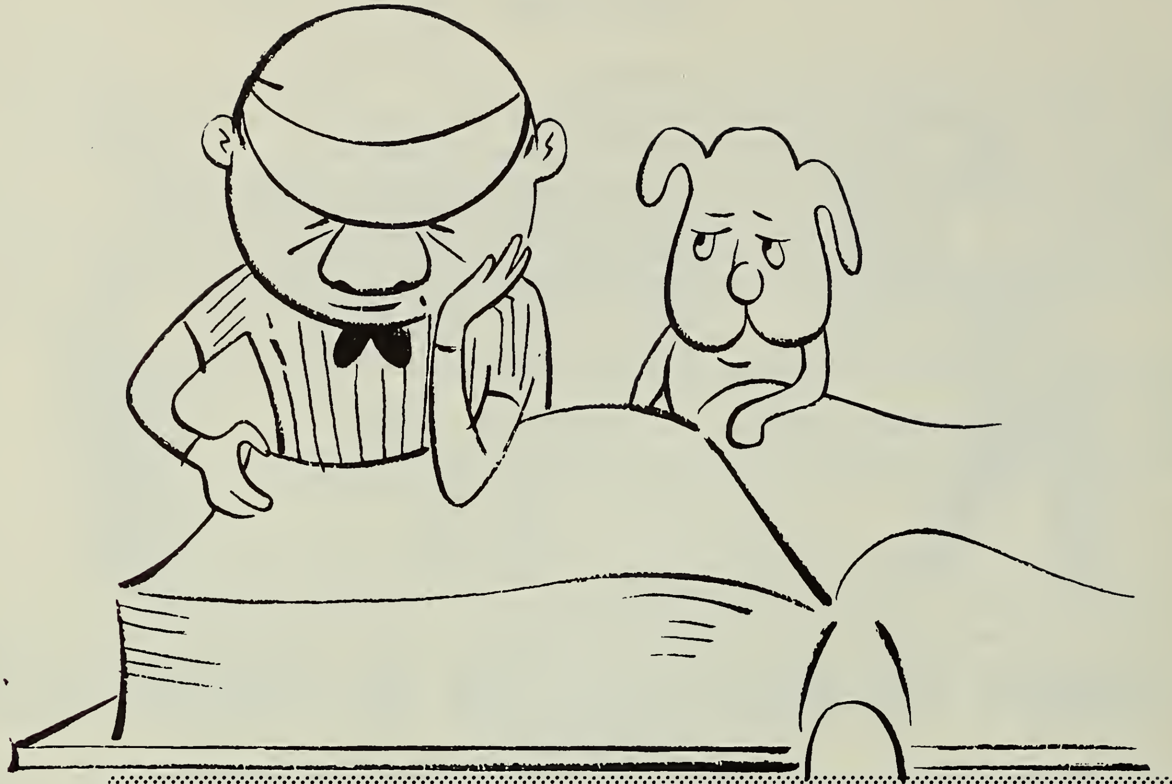
For the year ended December 31, 1960

Funds provided

1.	By consumers for electric service received:		
	a. Patronage capital and operating margins	$116,361	
	b. Depreciation and amortization expense	80,635	
	c. Net deferred interest	3,886	
	d. Excess of deferred debit write-offs over deferred credit write-offs	541	
	e. Prepayments applicable to future periods	732	
			$202,155
2.	By nonoperating margins		1,957
3.	By contributions:		
	a. For debt service payments		
	b. In aid of construction	$ 44	
	c. As membership fees and other capital	1,695	
			1,739
4.	By advances from REA and others		78,842
5.	By net decrease in long-term investments		
6.	By value of materials salvaged, less cost of removal		6,128
	Total funds provided		$290,821

Funds applied

7.	To extension and replacement of utility plant			127,307
8.	To repayments of principal to REA and others			98,788
9.	To increase in restricted fund			12,251
10.	To increase in long-term investments			9,811
11.	To retirement of capital credits			40,502
12.	To change in working capital:	Period balances		
		Beginning	Ending	
	a. Cash, accounts and notes receivable, temporary investments and special deposits	$106,146	$131,661	
	b. REA construction fund cash	8,063	5,870	
	c. Materials and supplies	55,184	35,642	
	d. Other current and accrued assets	3,241	3,706	
		$172,634	$176,879	
	e. Less: Total current and accrued liabilities	12,197	14,280	
	f. Working capital	$160,437	$162,599	
	Increase (decrease) in working capital			2,162
	Total funds applied			$290,821



ACCOUNTING TERMS DEFINED

Following is a list of accounting terms, explained in the sense in which they are used in this Bulletin:

ACCOUNTING: The systematic recording and reporting of business transactions.

ACCRUE: To record revenues when earned and expenses when incurred, even though collections and payments may take place, in whole or in part, in an earlier or later accounting period.

ACCUMULATED PROVISION FOR DEPRECIATION: The credit offsetting the total depreciation expense, less retirement losses.

AMORTIZATION: The gradual elimination of any amount over a period of time.

APPLICATION OF FUNDS STATEMENT: A statement showing for a specific period the sources of funds received, how these funds were used, and the resulting increase or decrease in the various groups of assets, liabilities, and net worth of business.

ASSET: Any owned physical object (tangible asset) or right (intangible asset) having a money value.

BALANCE: The difference between the totals of the two sides of an account, or the total of an account containing only debits or only credits.

BALANCE SHEET: A statement of financial position of a business at a given time.

BOOK COST: The amount at which an asset is recorded on the books, without deduction of related provisions for depreciation or other accounts, as distinguished from its market value.

BUDGET: A financial plan for control of future operations; any estimate of future revenue and expense.

CAPITAL: The amount invested in an enterprise by its owners plus retained income or margins.

CAPITAL ASSET: An asset intended for long-continued use, such as land, buildings, and equipment (fixed asset).

CHARGE: A debit.

COST: The amount of money actually paid for property or services or the cash value at the time of the transaction of any consideration other than money.

CREDIT: (1) A bookkeeping entry recording the reduction or elimination of an asset or expense, or the creation of or addition to a liability or item of net worth or revenue; an entry on the right side of an account. (2) The ability to buy or borrow in consideration of a promise to pay within a period following delivery.

CREDITOR: One to whom a debt is owed.

CURRENT ASSET: Cash or other asset held for conversion into cash within a relatively short period (usually a year or less).

CURRENT LIABILITY: A short-term debt, including any liability accrued that is to be paid out of current assets within a relatively short period (usually one year or less).

DEBIT: A bookkeeping entry recording the creation of or addition to an asset or expense or the reduction or elimination of a liability, or item of net worth or revenue; an entry on the left side of an account.

DEFERRED CREDIT: Income received or recorded before it is earned, that is, before the consideration or service is given.

DEFERRED DEBIT: An expenditure not treated as a cost of operation for the period in which incurred but carried forward to be written off in one or more future periods.

DEFICIT: The amount by which the revenues fall short of the expenses for a given period.

DEPRECIATION: Lost usefulness; the loss in service value of depreciable plant, not restored by current maintenance, resulting from causes against which no insurance is carried, such as wear and tear, decay, action of the elements, inadequacy, obsolescence, etc.

EARMARK: To give expression to a restriction imposed by law, contractual agreement, or administrative action on the use of an account or of an equivalent amount of assets; to transfer temporarily a portion of one account to another.

EARNED SURPLUS: Accumulated net income, less dividends paid to stockholders and transfers to capital stock accounts.

EQUATION: A relation between two groups of values, specifying that one group assumes the same worth as the other, thus establishing equality or equilibrium.

EQUITY: An interest in property or in a business, exclusive of liabilities to outsiders.

EXPENDITURE: The amount of cash or property paid or to be paid for an expense incurred or an asset purchased.

EXPENSE: Charges incurred, whether paid or unpaid, for operations, maintenance, depreciation or other items; a class term for expenditures recognized as operating costs of a current or past period.

FIXED ASSET: A tangible asset held for the services it yields in the production of other goods and services; any item of plant (capital asset).

INTANGIBLE ASSET: A capital asset having no physical existence, its value being dependent on the rights that possession confers upon the owner.

JOURNALIZE: To break down a transaction in terms of required debits and credits and to record it as a journal entry.

LIABILITY: An amount owing by one person or business to another, payable in money or in goods or services due at a specified time.

MARGINS: The excess of revenues (operating or nonoperating) over related expenses.

NET BOOK COST: When applied to electric plant, the book cost less accumulated provisions for depreciation and amortization; when applied to other property, book cost less related provisions for loss in value.

NET WORTH: The total of the equities representing the owners' interests; the excess of assets over liabilities to outsiders.

NONOPERATING: A term applied to the business activities which relate to other than the principal purpose of the business.

OPERATING: A term applied to the principal purpose of the business, which, in the case of electric systems, is the furnishing of electric energy.

PATRONAGE CAPITAL: Amounts paid by patrons which are in excess of the cost of rendering service and which under a capital credits plan are credited to patrons as patronage capital; margins which have been classed as patronage capital (see MARGINS).

PLANT: Land, buildings, equipment, furniture, and tools permanently employed in furnishing electric service.

POST: To transfer to a ledger the account changes recorded in a journal, or book of original entry.

PROFIT: The excess of revenues, proceeds, or selling price over related costs.

RATIO: The relation of one amount, A, to another, B, expressed as A:B (A is to B) or as a simple fraction or percentage.

RECONCILE: To determine the items necessary to bring the balance of two or more related accounts or statements into agreement.

REPLACEMENT: The substitution of one retirement unit (unit of property) for another.

RESTRICTED FUNDS: Cash or securities set aside to provide for specified purposes.

RETIREMENT UNIT: A unit of property which when retired, with or without replacement, is accounted for by removing its cost from the plant account.

REVENUE: Sales of products, merchandise, and services, and earnings from interest, dividends, rents, and wages.

SERVICE COST: The difference between the original cost and net salvage of electric plant.

STATEMENT OF OPERATIONS: A summary of the revenues and expenses of a business for a specified period.

TANGIBLE ASSET: Fixed asset; a capital asset having physical existence, such as a building.

TRANSACTION: An event or condition which gives rise to an entry in the accounting records.

VALUE: The attributed worth of anything expressed in money and applied to a particular asset, group of assets, services rendered or an entire business unit. The term should not be confused with cost.

WORKING CAPITAL: Capital in current use in the operation of a business; the excess of current assets over current liabilities; net current assets.

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